



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Department of Transportation*

*For the Two Fiscal Years Ended  
June 30, 2009*

OCTOBER 2009

LEGISLATIVE AUDIT  
DIVISION

09-17

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

October 2009

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for fiscal years 2007-08 and 2008-09. Included in this report are four recommendations concerning internal controls at fiscal year-end, relocation expenses, fuel purchasing cards, and the Scenic-Historic Byways Advisory Council. There are also two disclosure issues regarding excess annual leave and gasoline dealers' license tax revenue. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
<b>Montana Transportation Commission</b>	Nancy Espy, Chair	Broadus	2011
	Rick Griffith	Butte	2013
	S. Kevin Howlett	Arlee	2011
	Diane Seymour-Winterburn	Helena	2013
	Barb Skelton	Billings	2013
<b>Montana Aeronautics Board</b>	Tricia Mckenna, Chair	Belgrade	2013
	Ted Schye, Vice Chair	Fort Peck	2013
	Roger Lincoln, Secretary	Gilford	2013
	Robert Buckles	Bozeman	2011
	A. Christopher Edwards	Billings	2011
	Bill Hunt Jr.	Shelby	2013
	Fred Lark	Lewistown	2011
	Fred Leistiko	Kalispell	2013
	Charles J. Manning	Lakeside	2011
<b>Montana Department of Transportation</b>			
<b>Administrative Officials</b>	Jim Lynch, Director and Governor's Representative for Highway Traffic Safety		
	John Blacker, Deputy Director		
	Vickie Murphy, Internal Audit Manager		
	Dwane Kailey, Chief Operating Officer		
	Jennifer Jensen, Chief Human Resources Officer		
	Mike Bousliman, Chief Administrative Officer		
	Tim Reardon, Chief Counsel, Legal Services		
	Monte Brown, Administrator, Business Process Solutions		
	Larry Flynn, Administrator, Administration Division		
	Debbie Alke, Administrator, Aeronautics Division		
	Loran Frazier, Administrator, Highways Engineering Division		
	Jon Swartz, Administrator, Maintenance Division		
	Dennis Sheehy, Administrator, Motor Carrier Services Division		
	Lynn Zanto, Administrator, Rail, Transit & Planning Division		

**District Administrators**    Doug Moeller - Missoula  
   Jeff Ebert - Butte  
   Mick Johnson - Great Falls  
   Stefan Streeter - Billings  
   Ray Mengel - Glendive

**Public Information Officer**    For additional information concerning the Montana Department of Transportation, contact Charity Watt Levis:

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## REPORT SUMMARY

### **Montana Department of Transportation**

This report documents the results of our financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2009. We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting information on the state's accounting system.

This report contains four recommendations directed to the department. The recommendations are related to internal controls at fiscal year-end, relocation expenses, fuel purchasing cards, and the Scenic-Historic Byways Advisory Council. Of the 14 recommendations from the prior audit, we found the department implemented 11 recommendations, partially implemented two recommendations, and did not implement one recommendation, which is discussed on page 8.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

#### Recommendation #1.....6

We recommend the department record fiscal year-end transactions in the proper fiscal year.

Department Response: Concur .....B-3

#### Recommendation #2.....6

We recommend the department follow procedures to ensure compliance with its relocation expense reimbursement policy.

Department Response: Concur .....B-3

#### Recommendation #3.....7

We recommend the department modify its internal controls related to fuel purchasing cards to detect, prevent or deter fraud.

Department Response: Concur .....B-4

#### Recommendation #4.....8

We recommend the department have the Transportation Commission appoint the Scenic-Historic Byways Advisory Council in accordance with state law.

Department Response: Concur .....B-4



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2009. The objectives of the audit were to:

1. Determine if the department complied with selected state and federal laws and regulations during the audit period.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of operations and changes in fund balances for each of the fiscal years ended June 30, 2009, and 2008.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below summarizes the significant deficiencies and material weaknesses we identified during this audit.

Table 1 <b><u>Summary of Deficiencies in Internal Control</u></b>			
<b>Subject</b>	<b>Significant Deficiency</b>	<b>Material Weakness</b>	<b>Page</b>
Internal Controls at Fiscal Year-End	Yes	No	5

As required by §17-8-101(6), MCA, we performed procedures to evaluate whether fees and charges for services were commensurate with costs incurred in the department's two Internal Service funds. We found the fees and charges for services were commensurate with costs for the Motor Pool and Equipment Internal Service funds for fiscal years 2008-09 and 2007-08.

This report contains four recommendations to the department. In accordance with §5-13-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the costs are not significant. Issues deemed not to have a significant effect on department operations are not included in the report, but have been discussed with management.

## **Background**

The Montana Department of Transportation is responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and the infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The department is under the direction of the director, who is appointed by the Governor and confirmed by the Senate. The director or his designee acts as liaison between the Transportation Commission (commission) and the department. The commission is comprised of five members appointed by the Governor and confirmed by the Senate for four-year terms. The commission determines construction priorities, selects construction projects, awards construction contracts, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system.

The department was budgeted 2,265.25 full-time equivalent (FTE) positions during fiscal year 2008-09. The department's primary sources of funding are federal funds and state motor fuel taxes. Department activities are organized under the Director's Office and seven divisions as described below:

**Director's Office** (57.23 FTE) - provides overall direction and management to the department. Included under the Director's Office are Legal Services, Internal Audit, Public Information, and Human Resources.

**Administration** (63.99 FTE) - provides administrative support services including accounting, budgeting, financial planning, and purchasing. The Administration Division administers motor fuel tax laws and collects motor fuel taxes.

**Aeronautics** (10.29 FTE) - facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The Aeronautics Board decides whether to approve airport grant and loan requests, and advises the division on matters pertaining to aeronautics.

**Highways and Engineering** (974.42 FTE) - is responsible for highway construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. This includes project design, right-of-way acquisitions, issuing contract bid requests, addressing environmental concerns, awarding contracts, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors.

**Information Services** (66.55 FTE) - provides department-wide information technology services including network operations, application development, user support, records management, and printing.

**Maintenance** (894.67 FTE) - is responsible for maintaining the state's highway systems and its related facilities, equipment and motor pool vehicles, and road condition information and reports.

**Motor Carrier Services** (123.00 FTE) - enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety; registers interstate fleet vehicles; issues commercial vehicle licenses and oversize/overweight permits; collects and distributes fees and taxes; and operates a statewide weigh station and mobile enforcement program. It inspects commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws and conducts commercial motor carrier safety compliance reviews and safety audits.

**Rail, Transit and Planning** (75.10 FTE) - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems and highway traffic safety programs.

## **Prior Audit Recommendations**

The prior audit report for the two fiscal years ended June 30, 2007, contained 14 recommendations to the department. The department implemented 11 recommendations, partially implemented two recommendations, and did not implement one recommendation. The recommendations not fully implemented are related to the unconstitutional diversion of highway revenue and allocation of aviation fuel tax revenue and are further discussed in the sections below. The recommendation not implemented is related to the Scenic-Historic Byways Advisory Council which is discussed on page 8.

Article VIII, Section 6 of the Montana Constitution limits the use of restricted highway revenue and did not allow for the department's \$300,000 advance made in fiscal year 2006 from this account to fund the purchase of an airplane used by the Aeronautics Division and is therefore an unconstitutional diversion of restricted highway revenue.

The department did not repay the \$300,000 advance from the restricted highway revenue account to the aeronautics administration account as we recommended in the prior audit. Instead, the department is repaying the advance in accordance with the 14-year loan repayment schedule. Department management stated they provided the Long Range Planning Document (LRPD) to the 2005 Legislative General Government Subcommittee during the department's 2007 Biennium Budget hearings. Included in the LRPD was a line item showing the aircraft loan. The subcommittee approved the department's budget. The department does not believe this is a diversion of funds. Because the constitutionally restricted revenue is still not available for appropriate use, our prior audit recommendation still applies and the \$300,000 advance should be repaid.

The department did not distribute aviation fuel tax revenue and refunds in accordance with state law nor did they move balances in the pavement preservation account to the grant account as we recommended in the prior audit. However, legislation was enacted in the 2009 Legislative Session that addressed the allocation of aviation fuel tax revenues. The new legislation aligns the department's allocation procedures with state law. The effective date of this legislation is July 1, 2009. If the department continues to use the current allocation procedures in fiscal year 2010 they will be in compliance with state law. Therefore, we make no further recommendation at this time.

## Chapter II – Findings and Recommendations

### **Internal Controls at Fiscal Year-End**

---

**The department did not adequately consider the timing of when services were rendered in recording payments for services during fiscal year-end.**

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During the first few weeks of July, the department's accounting staff process a number of transactions and are required to ensure that all activity related to the fiscal year ended June 30 is accounted for in the appropriate fiscal year, in accordance with state accounting policy. State accounting policy requires services to be charged against the fiscal year in which the services are received.

We sampled 24 payments for services expenditures out of approximately 1500 total, during the fiscal year-end 2007-08 period and found eight of the transactions were recorded in the wrong fiscal year. As a result, Other Services on the Schedule of Expenditures & Transfers-Out are overstated in fiscal year 2008-09 by \$394,688 and understated by the same amount in 2007-08.

Department internal controls include review and approval of each transaction entered into the state's accounting system. The review and approval process is performed by various accounting personnel at the department. The department's review and approval process did not detect these errors.

Department management said many staff responsible for entering and reviewing transactions will look at the date the invoice was received rather than the date the services were performed, in deciding which fiscal year to record the transaction. Management indicated they will continue to remind all financial staff of the importance of recording transactions in the proper year. We reviewed five payments for services expenditures, during the fiscal year-end 2008-09 period, and found all five were recorded in the correct fiscal year.

We found these errors were the result of a significant deficiency in internal controls because we believe additional errors exist and controls were not adequate to prevent or detect misstatements related to recording transactions in the proper fiscal year at fiscal year-end 2008.

---

**RECOMMENDATION #1**

*We recommend the department record fiscal year-end transactions in the proper fiscal year.*

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## **Relocation Expenses**

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### **The department paid expenses related to employees relocating prior to entering into relocation agreements.**

---

Department policy requires that a moving agreement be completed and signed by the employee and management approving the job transfer at least twenty-one calendar days prior to the effective date of transfer. Department policy also states no reimbursement will be made for expenses/items not approved in this agreement.

We tested a sample of 15 relocation expense transactions out of 256 in total, in fiscal years 2007-08 and 2008-09 and found three instances where the department did not have a signed relocation agreement prior to the expenditures being incurred and paid. In fiscal year 2007-08, the department paid \$1,541 and in 2008-09 paid \$3,698 in relocation expenses prior to having a signed agreement. The department determined payments were appropriate based on verbal agreements made with employees.

Department management stated they did not get all the paperwork in on time, but needed to pay the costs anyway. The department implemented new procedures in April 2009 and they will no longer pay costs prior to having a signed agreement. The objective of the department policy is to establish equitable reimbursement practices for the administration of relocation expenses paid by the department. Without a signed agreement, the department could make contradictory or inconsistent decisions.

---

**RECOMMENDATION #2**

*We recommend the department follow procedures to ensure compliance with its relocation expense reimbursement policy.*

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## **Fuel Purchasing Cards**

**The department's internal controls over its fuel purchasing cards are not adequate to detect, prevent or deter fraud.**

State policy, MOM 2-0250 requires state agencies to implement internal control procedures. In addition, MOM 2-9900 states "managers are accountable for the adequacy of the internal control systems in their agencies. Weak or insufficient internal controls may result in audit findings and, more importantly, can lead to theft, shortages, operational inefficiency, or a breakdown in the control structure."

During our audit period, the department discovered an employee that had been using various fuel purchasing cards to fuel personal vehicles and equipment for a number of years. Several years prior to this incident, the employee had been reprimanded for the same fraud.

Department internal controls did not detect, prevent or deter this fraud. Department management reviewed its internal control procedures related to fuel purchasing cards and found its controls were not designed to detect this type of fraud. The department identified approximately \$8,800 of fraudulent charges on its fuel card purchases from calendar years 2005 to 2009. While the amount is not significant to the department's total expenditures, the fraud went undetected for a number of years and involved a number of fuel purchasing cards. The department has approximately 4,100 fuel cards and without adequate controls the potential exists for other irregularities.

The department had some controls in place during the audit period. However, these controls were not designed to prevent or detect the type of fraud that occurred at the department. The department should modify its controls to detect, prevent or deter fraud.

### **RECOMMENDATION #3**

*We recommend the department modify its internal controls related to fuel purchasing cards to detect, prevent or deter fraud.*

## **Scenic-Historic Byways Advisory Council**

**The Transportation Commission has not appointed a Scenic-Historic Byways Advisory Council, as required by state law.**

---

Section 60-2-601, MCA, created a scenic-historic byways program and requires the Transportation Commission to appoint an advisory council for this program. The duties of the advisory council include: assisting the department and the commission in designing the program, reviewing applications for nominating roads to the program, and recommending to the commission roads that should be included in or deleted from the program.

As part of our prior audit of the department, we recommended the department comply with state law concerning the council. During the current audit, we found the commission still had not appointed a scenic-historic byways advisory council.

Department management stated they were waiting until after the 2009 Legislative Session before having the commission appoint the council due to a piece of legislation that was introduced that could have impacted the number of roads eligible for this program. Management said the final legislation did not impact the number of eligible roads and so they plan to have the commission appoint this council.

State law requires the creation of the council, regardless of the number of roads eligible for the program. In addition, the commission met several times after the legislative session and prior to fiscal year-end 2008-09 and did not create the council.

---

### **RECOMMENDATION #4**

*We recommend the department have the Transportation Commission appoint the Scenic-Historic Byways Advisory Council in accordance with state law.*

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## Chapter III – Disclosure Issues

### **Excess Annual Leave**

State law limits the accumulation of employee vacation leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts is considered “excess” and must be used by the employee within the first 90 days of each calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture may be delayed until the end of the calendar year.

The department forfeited excess leave balances as required by state law and paid employees for the dollar value of the excess leave balances that were forfeited. In fiscal year 2007-08, the department had 16 employees with excess leave and paid them a total of \$284,343 and, in fiscal year 2008-09, had six employees and paid them a total of \$44,958. The payments were made at the time leave was forfeited and payment was calculated using the employees’ pay rate times the number of excess leave hours that were forfeited. State law is silent with respect to payment of excess leave balances.

Department management stated they denied these employees their requests to take leave so instead compensated them for their time earned and forfeited because they believe they earned the time. Department personnel said they are trying to reduce the amount of leave forfeited, but will likely continue to have a couple employees that are not able to use their leave and will be paid for any excess leave balance prior to forfeiture.

We disclose this issue for informational purposes to the legislature and make no recommendation at this time.

### **Gasoline Dealers’ License Tax Revenue**

State law requires gasoline dealers’ license tax revenues to be allocated based on ratios established in §60-3-201, MCA. The table below shows the required distribution amounts per state law, the over (under) distribution and the actual distributions that occurred during fiscal year 2008-09.

Table 2

**Comparison of Required and Actual Gasoline Dealers' License Tax Revenue Distribution**

Fund	Required Distribution	Over (Under) Distribution	Actual Distribution
Noxious Weed Administration	\$6,442	\$5,582	\$12,024
Off-Highway Vehicle Gas Tax	135,286	(2,930)	132,356
Off-Highway Vehicle Gas Tax – Conservation Education	15,032	(3,007)	12,025
Snowmobile Fuel Tax – Enforcement	27,916	(3,815)	24,102
Snowmobile Fuel Tax – Conservation	55,832	4,403	60,235
Snowmobile Fuel Tax	554,029	(760)	553,269
Motorboat Fuel Tax	1,082,289	374	1,082,663
Highways Special Revenue	118,329,368	146	118,329,514
Aeronautics Division	48,102	7	48,109

**Source:** Compiled by the Legislative Audit Division.

Department personnel stated the over (under) distribution amounts are the result of system rounding limitations as established in state accounting policy. Due to system software limitations, the department rounds the gasoline dealers' license tax revenue distribution ratios to four digits beyond the decimal point. The system limitation of four decimal places has caused errors in the distribution amounts for several years. Some funds receive more money than entitled and others receive less. These errors, while small, may be significant to the individual funds to which the taxes are distributed. For example, the Noxious Weed Administration Account is receiving nearly twice the amount it is supposed to receive per state law.

The law is clear concerning the ratios to be used for distribution. System limitation does not absolve the department from its responsibility to distribute gasoline tax revenue in accordance with the statutory requirements. We disclose this issue for informational purposes to the legislature and make no recommendations at this time.

# **Independent Auditor's Report and Department Financial Schedules**



Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Montana Department of Transportation for each of the fiscal years ended June 30, 2009, and 2008. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Transportation for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

September 1, 2009





DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2008	\$ (104,746)	\$ 142,420,012	\$ 0	\$ 0	\$ 2,345,099	\$ 65,116,668	\$ 0	\$ 286,886	\$ 933
PROPERTY HELD IN TRUST: July 1, 2008							\$ 274,381		
<b>ADDITIONS</b>									
Budgeted Revenues & Transfers-In	499,912	297,377,849	403,387,160		1,177,941	34,827,281	(185)		
Nonbudgeted Revenues & Transfers-In	61	14,728,391	1,541	15,980,288	49	287,674	185	4,684	
Prior Year Revenues & Transfers-In Adjustments	(19,513)	(14,286,380)	(17,892)		17,985	(117,674)			
Direct Entries to Fund Balance	87,843	(38,224,921)				9,672			(932)
Additions to Property Held in Trust							1,225,045		
Total Additions	568,303	259,594,939	403,370,809	15,980,288	1,195,975	35,006,953	1,225,045	4,684	(932)
<b>REDUCTIONS</b>									
Budgeted Expenditures & Transfers-Out	538,074	262,889,623	357,252,663		256,073	31,136,356			
Nonbudgeted Expenditures & Transfers-Out		15,409,716	47,569,698	15,980,288	134,383	523,247		6,076	
Prior Year Expenditures & Transfers-Out Adjustments		3,039,773	(1,451,553)		26,368	(1,735)			
Reductions in Property Held in Trust							1,274,042		
Total Reductions	538,074	281,339,112	403,370,808	15,980,288	416,824	31,657,868	1,274,042	6,076	0
FUND BALANCE: June 30, 2009	\$ (74,517)	\$ 120,675,839	\$ 1	\$ 0	\$ 3,124,250	\$ 68,465,753	\$ 0	\$ 285,494	\$ 1
PROPERTY HELD IN TRUST: June 30, 2009							\$ 225,384		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2007	<u>\$ (164,280)</u>	<u>\$ 100,233,654</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,313,985</u>	<u>\$ 63,198,391</u>	<u>\$ 0</u>	<u>\$ 287,086</u>	<u>\$ 2,010</u>
PROPERTY HELD IN TRUST: July 1, 2007							<u>\$ 125,837</u>		
ADDITIONS									
Budgeted Revenues & Transfers-In	424,069	334,975,463	370,715,242		368,485	34,129,257	(27)		3
Nonbudgeted Revenues & Transfers-In	78,402	15,717,497		11,877,906	84	809,372	27	11,830	12,631
Prior Year Revenues & Transfers-In Adjustments	(530)	(117,167)	(819,970)			401			(3)
Direct Entries to Fund Balance	(261,959)	(38,196,199)			(8,822)	(131,495)			(13,577)
Additions to Property Held in Trust							951,137		
Total Additions	<u>239,982</u>	<u>312,379,594</u>	<u>369,895,272</u>	<u>11,877,906</u>	<u>359,747</u>	<u>34,807,535</u>	<u>951,137</u>	<u>11,830</u>	<u>(946)</u>
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	180,448	255,433,020	330,517,872		242,595	32,944,646			
Nonbudgeted Expenditures & Transfers-Out		14,791,581	40,204,710	11,877,906	86,038	(54,409)		12,030	131
Prior Year Expenditures & Transfers-Out Adjustments		(31,365)	(827,310)			(979)			
Reductions in Property Held in Trust							802,593		
Total Reductions	<u>180,448</u>	<u>270,193,236</u>	<u>369,895,272</u>	<u>11,877,906</u>	<u>328,633</u>	<u>32,889,258</u>	<u>802,593</u>	<u>12,030</u>	<u>131</u>
FUND BALANCE: June 30, 2008	<u>\$ (104,746)</u>	<u>\$ 142,420,012</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,345,099</u>	<u>\$ 65,116,668</u>	<u>\$ 0</u>	<u>\$ 286,886</u>	<u>\$ 933</u>
PROPERTY HELD IN TRUST: June 30, 2008							<u>\$ 274,381</u>		

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 Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>										
Licenses and Permits	\$ 469,745	\$ 31,718,954								\$ 32,188,699
Taxes	11,051	191,108,666	\$ 2,172		\$ 49	\$ 213				191,122,151
Charges for Services		5,647,038			39,810	33,833,096				39,519,944
Investment Earnings		1,239,158					\$ 217	\$ 4,684		1,244,059
Fines and Forfeits		672,302								672,302
Capital Contributions		282			1,024,262	702,408				1,726,952
Sale of Documents, Merchandise and Property		140,483				255,965				396,448
Rentals, Leases and Royalties	2	296,918			92,044					388,964
Grants, Contracts, and Donations		278,490								278,490
Transfers-in	(338)	13,927,579	5,715,673	\$ 15,980,288	13,390					35,636,592
Capital Asset Sale Proceeds		195,700								195,700
Federal Indirect Cost Recoveries		51,886,236			(7,683)					51,878,553
Miscellaneous		708,054			34,103	205,599	(217)			947,539
Federal			397,652,964							397,652,964
Total Revenues & Transfers-In	480,460	297,819,860	403,370,809	15,980,288	1,195,975	34,997,281	0	4,684	0	753,849,357
Less: Nonbudgeted Revenues & Transfers-In	61	14,728,391	1,541	15,980,288	49	287,674	185	4,684		31,002,873
Prior Year Revenues & Transfers-In Adjustments	(19,513)	(14,286,380)	(17,892)		17,985	(117,674)				(14,423,474)
Actual Budgeted Revenues & Transfers-In	499,912	297,377,849	403,387,160	0	1,177,941	34,827,281	(185)	0	0	737,269,958
Estimated Revenues & Transfers-In	835,701	312,281,998	573,795,758		249,802	32,879,001	7,156		\$ 1,001	920,050,417
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (335,789)	\$ (14,904,149)	\$ (170,408,598)	\$ 0	\$ 928,139	\$ 1,948,280	\$ (7,341)	\$ 0	\$ (1,001)	\$ (182,780,459)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>										
Licenses and Permits	\$ (12,279)	\$ (16,573,650)								\$ (16,585,929)
Taxes	(1,510)	(9,137,540)							\$ (1,001)	(9,140,051)
Charges for Services		681,282			\$ 11,010	\$ 2,225,771				2,918,063
Investment Earnings		(1,056,764)					\$ (7,155)			(1,063,919)
Fines and Forfeits		(109,931)								(109,931)
Capital Contributions		(599,718)			948,594	(297,592)				51,284
Sale of Documents, Merchandise and Property		(400,617)				(11,813)				(412,430)
Rentals, Leases and Royalties		(38,609)			(29,956)					(68,565)
Grants, Contracts, and Donations		(1,916,510)								(1,916,510)
Transfers-in	(322,000)		\$ (1,762,232)		(6,610)	(1)				(2,090,843)
Capital Asset Sale Proceeds		(100,000)								(100,000)
Federal Indirect Cost Recoveries		19,434,715			(16,000)					19,418,715
Miscellaneous		(5,086,807)	(14,000)		21,103	31,915	(186)			(5,047,975)
Federal			(168,632,366)		(2)					(168,632,368)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (335,789)	\$ (14,904,149)	\$ (170,408,598)	\$ 0	\$ 928,139	\$ 1,948,280	\$ (7,341)	\$ 0	\$ (1,001)	\$ (182,780,459)

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DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>										
Licenses and Permits	\$ 413,003	\$ 31,532,881								\$ 31,945,884
Taxes	10,535	205,797,468			\$ 84	\$ 732			\$ 12,631	205,821,450
Charges for Services		7,304,234			26,923	33,320,408				40,651,565
Investment Earnings		1,960,220					\$ 27	\$ 11,830		1,972,077
Fines and Forfeits		1,092,062								1,092,062
Capital Contributions		264,167			174,369	632,190				1,070,726
Sale of Documents, Merchandise and Property		620,145				142,670				762,815
Rentals, Leases and Royalties	1	254,388			113,250					367,639
Grants, Contracts, and Donations		572,190								572,190
Transfers-in	78,402	14,710,823		\$ 11,877,906	13,701	658,935				27,339,767
Bond Proceeds		45,403,379								45,403,379
Federal Indirect Cost Recoveries		40,108,627			7,683					40,116,310
Miscellaneous		955,209			32,559	184,095	(27)			1,171,836
Federal			\$ 369,895,272							369,895,272
Total Revenues & Transfers-In	501,941	350,575,793	369,895,272	11,877,906	368,569	34,939,030	0	11,830	12,631	768,182,972
Less: Nonbudgeted Revenues & Transfers-In	78,402	15,717,497		11,877,906	84	809,372	27	11,830	12,631	28,507,749
Prior Year Revenues & Transfers-In Adjustments	(530)	(117,167)	(819,970)			401			(3)	(937,269)
Actual Budgeted Revenues & Transfers-In	424,069	334,975,463	370,715,242	0	368,485	34,129,257	(27)	0	3	740,612,492
Estimated Revenues & Transfers-In	729,509	334,442,009	320,065,465		355,200	32,768,100	4,200		10,100	688,374,583
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (305,440)	\$ 533,454	\$ 50,649,777	\$ 0	\$ 13,285	\$ 1,361,157	\$ (4,227)	\$ 0	\$ (10,097)	\$ 52,237,909
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>										
Licenses and Permits	\$ 18,526	\$ (16,014,698)								\$ (15,996,172)
Taxes	(1,966)	(9,626,383)							\$ (10,097)	(9,638,446)
Charges for Services		5,281,434			\$ (3,077)	\$ 1,726,345				7,004,702
Investment Earnings		914,082					\$ (4,100)			909,982
Fines and Forfeits		(569,110)								(569,110)
Capital Contributions		(335,833)			(5,631)	(367,810)				(709,274)
Sale of Documents, Merchandise and Property		(98,955)				3,927				(95,028)
Rentals, Leases and Royalties		(233,812)			250					(233,562)
Grants, Contracts, and Donations		(1,506,810)								(1,506,810)
Transfers-in	(322,000)				(6,299)	(100)				(328,399)
Bond Proceeds		19,403,379								19,403,379
Federal Indirect Cost Recoveries		7,908,136			7,683					7,915,819
Miscellaneous		(4,587,976)	\$ (14,000)		20,559	(1,205)	(127)			(4,582,749)
Federal			50,663,777		(200)					50,663,577
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (305,440)	\$ 533,454	\$ 50,649,777	\$ 0	\$ 13,285	\$ 1,361,157	\$ (4,227)	\$ 0	\$ (10,097)	\$ 52,237,909

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DEPARTMENT OF TRANSPORTATION SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2009									
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AERONAUTICS PROGRAM	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	HIGHWAYS & ENGINEERING	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	RAIL, TRANSIT & PLANNING	STATE MOTOR POOL	Total
Personal Services									
Salaries	\$ 565,971	\$ 5,179,939	\$ 10,002,135	\$ 14,214,391	\$ 32,515,290	\$ 5,670,860	\$ 3,952,596	\$ 239,328	\$ 72,340,510
Hourly Wages					(772,908)				(772,908)
Other Compensation	1,900		4,057	797		357			7,111
Employee Benefits	173,279	2,038,583	2,626,054	4,185,759	12,471,212	2,018,529	1,193,582	96,203	24,803,201
Personal Services-Other	11,452	(30,787)						696	(18,639)
Total	752,602	7,187,735	12,632,246	18,400,947	44,213,594	7,689,746	5,146,178	336,227	96,359,275
Operating Expenses									
Other Services	(245,251)	354,255	6,979,054	90,330,588	14,017,190	1,183,583	2,430,430	312,171	115,362,020
Supplies & Materials	109,835	6,795,384	1,159,351	283,899	1,721,418	241,729	250,900	1,615,966	12,178,482
Communications	19,289	9,094	562,967	164,160	476,208	122,740	99,456	2,436	1,456,350
Travel	18,359	13,617	353,747	318,647	181,086	207,415	160,052		1,252,923
Rent	17,511	11,963	259,624	1,121,331	23,563,627	624,012	179,367	65,050	25,842,485
Utilities	57,837	102,926		25,329	3,501,150	99,482		2,349	3,805,114
Repair & Maintenance	45,569	3,975,024	1,082,809	446,343	18,614,621	133,401	31,518	326,189	24,655,474
Other Expenses	331,445	6,416,556	2,811,117	12,279,273	859,066	726,607	2,751,217	2,623,990	28,799,271
Goods Purchased For Resale	11,653								11,653
Total	366,247	17,678,819	13,208,669	104,969,570	62,934,366	3,338,969	5,905,289	4,961,843	213,363,772
Equipment & Intangible Assets									
Equipment	37,068	827,841	271,577	298,863	338,791	543,632	174,649	(40,546)	2,451,875
Intangible Assets			303,002	504,700			150,000		957,702
Total	37,068	827,841	574,579	803,563	338,791	543,632	324,649	(40,546)	3,409,577
Capital Outlay									
Land & Interest In Land				338,410,852					338,410,852
Buildings				4,665	1,434,554				1,439,219
Other Improvements	919,755			456,820					1,376,575
Total	919,755			338,872,337	1,434,554				341,226,646
Local Assistance									
From other sources			3,551,200						3,551,200
Total			3,551,200						3,551,200
Grants									
From State Sources	416,813		16,857,953	1,634			319,043		17,595,443
From Federal Sources			675,665	222,952			11,740,534		12,639,151
From Other Sources							11,396		11,396
Total	416,813		17,533,618	224,586			12,070,973		30,245,990
Transfers-out									
Fund transfers	13,053		10,565,028				1,118,753		11,696,834
Mandatory Transfers				15,980,288	816,000				16,796,288
Total	13,053		10,565,028	15,980,288	816,000		1,118,753		28,493,122
Debt Service									
Bonds				15,946,735					15,946,735
Loans								272,959	272,959
Total				15,946,735				272,959	16,219,694
Other Post Employment Benefits									
Other Post Employment Benefits	6,784	413,025						19,965	439,774
Total	6,784	413,025						19,965	439,774
Total Expenditures & Transfers-Out	\$ 2,512,322	\$ 26,107,420	\$ 58,065,340	\$ 495,198,026	\$ 109,737,305	\$ 11,572,347	\$ 24,565,842	\$ 5,550,448	\$ 733,309,050
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			\$ 441,502	\$ 12,514	\$ 70,814		\$ 13,244		\$ 538,074
State Special Revenue Fund	\$ 1,396,560		55,172,461	114,253,526	101,196,090	\$ 7,048,245	2,272,230		281,339,112
Federal Special Revenue Fund	698,938		2,451,377	364,951,698	8,470,401	4,524,102	22,274,292		403,370,808
Debt Service Fund				15,980,288					15,980,288
Enterprise Fund	416,824								416,824
Internal Service Fund		\$ 26,107,420						\$ 5,550,448	31,657,868
Private Purpose Trust Fund							6,076		6,076
Total Expenditures & Transfers-Out	2,512,322	26,107,420	58,065,340	495,198,026	109,737,305	11,572,347	24,565,842	5,550,448	733,309,050
Less: Nonbudgeted Expenditures & Transfers-Out	(58,913)	661,939	12,589,787	62,133,074	1,176,989	556,841	2,702,383	(138,692)	79,623,408
Prior Year Expenditures & Transfers-Out Adjustments	1,021	(1,697)	(2)	1,409,660	203,910			(38)	1,612,854
Actual Budgeted Expenditures & Transfers-Out	2,570,214	25,447,178	45,475,555	431,655,292	108,356,406	11,015,506	21,863,459	5,689,178	652,072,788
Budget Authority	3,882,314	26,177,569	51,099,670	530,120,890	120,312,987	13,938,799	35,276,364	5,854,763	786,663,366
Unspent Budget Authority	\$ 1,312,100	\$ 730,391	\$ 5,624,115	\$ 98,465,598	\$ 11,956,581	\$ 2,923,293	\$ 13,412,905	\$ 165,585	\$ 134,590,568
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			\$ 2,418,213	\$ 12,114	\$ 62,858		\$ 36,756		\$ 2,529,941
State Special Revenue Fund	\$ 269,394		2,973,846	75,428,470	10,642,047	\$ 567,338	8,267,259		98,148,354
Federal Special Revenue Fund	996,722		232,056	23,025,014	1,251,676	2,355,955	5,108,890		32,970,313
Enterprise Fund	45,984								45,984
Internal Service Fund		\$ 730,391						\$ 165,585	895,976
Unspent Budget Authority	\$ 1,312,100	\$ 730,391	\$ 5,624,115	\$ 98,465,598	\$ 11,956,581	\$ 2,923,293	\$ 13,412,905	\$ 165,585	\$ 134,590,568

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DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AERONAUTICS PROGRAM	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	HIGHWAYS & ENGINEERING	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	RAIL, TRANSIT & PLANNING	STATE MOTOR POOL	Total
Personal Services									
Salaries	\$ 569,871	\$ 5,008,967	\$ 9,309,371	\$ 49,772,193	\$ 31,563,353	\$ 4,945,683	\$ 3,533,857	\$ 238,526	\$ 104,941,821
Other Compensation	1,950			2,650					4,600
Employee Benefits	176,164	1,976,700	2,428,314	14,707,359	12,113,945	1,813,697	1,062,673	96,582	34,375,434
Personal Services-Other	3,064	9,100	(20,876,950)					2,320	(20,862,466)
Total	751,049	6,994,767	(9,139,265)	64,482,202	43,677,298	6,759,380	4,596,530	337,428	118,459,389
Operating Expenses									
Other Services	703,860	457,551	(209,054,669)	301,170,766	13,673,670	501,736	2,376,809	351,778	110,181,501
Supplies & Materials	68,766	8,472,688	1,270,719	1,331,582	1,595,431	452,773	180,719	2,071,327	15,444,005
Communications	18,869	8,653	732,048	585,247	443,170	81,573	92,570	2,464	1,964,594
Travel	31,060	38,503	377,684	1,477,557	235,043	220,531	152,138		2,532,516
Rent	17,306	14,218	285,991	4,334,717	22,838,718	360,411	160,323	64,800	28,076,484
Utilities	57,645	123,679		91,466	3,609,599	96,027	1,393	22,458	4,002,267
Repair & Maintenance	93,781	3,282,544	907,857	2,151,051	16,337,154	24,637	19,093	295,873	23,111,990
Other Expenses	210,180	6,105,070	3,804,344	37,454,045	1,153,298	439,545	1,911,983	2,661,530	53,739,995
Goods Purchased For Resale	12,684								12,684
Total	1,214,151	18,502,906	(201,676,026)	348,596,431	59,886,083	2,177,233	4,895,028	5,470,230	239,066,036
Equipment & Intangible Assets									
Equipment	184,473	809,153	19,348	527,908	996,755	124,886	26,831	88,544	2,777,898
Intangible Assets			22,500	487,100			9,258		518,858
Total	184,473	809,153	41,848	1,015,008	996,755	124,886	36,089	88,544	3,296,756
Capital Outlay									
Land & Interest In Land			235,780,234	14,630,939	157,150				250,568,323
Buildings				2,600					2,600
Other Improvements				1,187,878					1,187,878
Total			235,780,234	15,821,417	157,150				251,758,801
Local Assistance									
From other sources			3,772,614				447,116		4,219,730
Total			3,772,614				447,116		4,219,730
Grants									
From State Sources	535,093		17,140,130	1,164,798			1,976,327		20,816,348
From Federal Sources				575,761			9,075,924		9,651,685
From Other Sources							601,619		601,619
Total	535,093		17,140,130	1,740,559			11,653,870		31,069,652
Benefits & Claims									
OPEB Expenses	6,520	389,081						19,632	415,233
Total	6,520	389,081						19,632	415,233
Transfers-out									
Fund transfers	92,104		12,090,488						12,182,592
Mandatory Transfers				11,877,906	411,000				12,288,906
Total	92,104		12,090,488	11,877,906	411,000				24,471,498
Debt Service									
Bonds			249	12,342,596					12,342,845
Loans								276,974	276,974
Total			249	12,342,596				276,974	12,619,819
Total Expenditures & Transfers-Out	\$ 2,783,390	\$ 26,695,907	\$ 58,010,272	\$ 455,876,119	\$ 105,128,286	\$ 9,061,499	\$ 21,628,633	\$ 6,192,808	\$ 685,376,914
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			\$ 141,605		\$ 30,461		\$ 8,382		\$ 180,448
State Special Revenue Fund	\$ 1,674,602		55,807,017	\$ 104,746,580	98,032,441	\$ 6,492,424	3,440,172		270,193,236
Federal Special Revenue Fund	780,155		2,061,519	339,251,633	7,064,841	2,569,075	18,168,049		369,895,272
Debt Service Fund				11,877,906					11,877,906
Enterprise Fund	328,633								328,633
Internal Service Fund		\$ 26,695,907			543			\$ 6,192,808	32,889,258
Private Purpose Trust Fund							12,030		12,030
Permanent Fund			131						131
Total Expenditures & Transfers-Out	2,783,390	26,695,907	58,010,272	455,876,119	105,128,286	9,061,499	21,628,633	6,192,808	685,376,914
Less: Nonbudgeted Expenditures & Transfers-Out	(104,366)	(336,992)	14,351,450	49,736,031	742,167	286,697	1,960,960	282,040	66,917,987
Prior Year Expenditures & Transfers-Out Adjustments		(1,516)	(95,640)	105,046	101,171	(16)	(969,237)	538	(859,654)
Actual Budgeted Expenditures & Transfers-Out	2,887,756	27,034,415	43,754,462	406,035,042	104,284,948	8,774,818	20,636,910	5,910,230	619,318,581
Budget Authority	5,100,841	27,077,604	89,992,088	497,219,435	110,917,831	11,119,467	27,602,020	5,914,475	774,943,761
Unspent Budget Authority	\$ 2,213,085	\$ 43,189	\$ 46,237,626	\$ 91,184,393	\$ 6,632,883	\$ 2,344,649	\$ 6,965,110	\$ 4,245	\$ 155,625,180
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			\$ 2,858,395				\$ 41,618		\$ 2,900,013
State Special Revenue Fund	\$ 716,542		15,928,056	\$ 64,004,642	\$ 5,361,518	\$ 773,667	3,252,206		90,036,631
Federal Special Revenue Fund	1,431,467		27,451,175	27,179,751	1,271,365	1,570,982	3,671,286		62,576,026
Enterprise Fund	65,076								65,076
Internal Service Fund		\$ 43,189						\$ 4,245	47,434
Unspent Budget Authority	\$ 2,213,085	\$ 43,189	\$ 46,237,626	\$ 91,184,393	\$ 6,632,883	\$ 2,344,649	\$ 6,965,110	\$ 4,245	\$ 155,625,180

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Montana Department of Transportation

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2009

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) Fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

### **Governmental Fund Category**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes.

The State Special Revenue Funds includes the restricted highway revenue, nonrestricted highway, Series 2005 and 2008 Grant Anticipation Notes, petroleum storage tank, Uniform Carrier Registration, motorboat fuel tax, and Aeronautics Division accounts.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The Federal Special Revenue Fund includes activity such as federal highway planning and construction, highway traffic safety, transit administration, aviation administration, and motor carrier services grants.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to account for the Series 2005 and 2008 Grant Anticipation Notes.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to record gas tax distributions to the Noxious Weed Management Program. This activity has been moved to a State Special Revenue Fund in accordance with state law.

### Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Enterprise Fund includes the financial activity of the West Yellowstone Airport.
- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Internal Service Fund includes the State Motor Pool and the Highway Equipment Programs.

### Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The Private-Purpose Trust Fund includes the Woodville Hill Abandonment and Moore-Sipple Connector funds.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. The Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. Agency Fund includes department union pension activity, and the Fort Belknap and Blackfeet Tribes Improvement or Service fees.



## **2. General Fund Balance**

The negative fund balance in the General Fund at June 30, 2008, and 2009, does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceeded the assets it had placed in the fund, resulting in negative ending General Fund balance for the fiscal years ended June 30, 2008, and 2009. These balances reflect the results of the activity of the department and not the fund balance of the statewide General Fund.

## **3. Direct Entries to Fund Balance**

The majority of the direct entries to fund balance in the State Special Revenue Fund are entries generated by the Department of Administration, State Accounting Division to reflect the flow of resources within the restricted highway revenue account and petroleum storage tank account shared between the department, the Department of Justice, the Department of Environmental Quality and the Department of Fish Wildlife & Parks.

## **4. Interagency Activity**

During the normal course of operations, the department has transactions within funds and between funds to finance operations, provide services, and service debt. The following describes the activity for the two fiscal years ended June 30, 2009.

### **Equipment Program**

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. Maintenance, Highway & Engineering, and Motor Carrier Services are the major programs that use the equipment and vehicles. The Charges for Services revenue for the Equipment Program was approximately \$27.2 million in fiscal year 2008 and \$27.9 million in fiscal year 2009.

### **Transfers**

During fiscal years 2008 and 2009, approximately \$11.3 million and \$10.5 million, respectively, was transferred from the General Operations Program in the State Special Revenue Fund nonrestricted highway account to the State Special Revenue Fund restricted highway revenue account to fund department costs and comply with federal matching requirements.

During fiscal years 2008 and 2009, approximately \$11.9 million and \$16 million, respectively, was transferred from the Highway & Engineering Program in the Federal Special Revenue Fund to the Debt Service Fund US 93 bond account for debt service payments.

## **5. Highway Construction Commitments**

At June 30, 2008, and June 30, 2009, the department had contractual commitments of approximately \$189.9 million and \$255.8 million, respectively, for the construction of various highway projects. Funding for these highway projects is to be provided from federal Highway Planning and Construction grants and matched with State Special Revenue Funds.

## **6. Capital Outlay Adjustment**

Beginning in fiscal year 2008, the department adjusted expenditures on SABHRS at fiscal year-end to properly classify capital outlay expenditures in accordance with state policy, while also maintaining compliance with budgetary law. The expenditures were originally budgeted by the Montana Legislature as personal services, operating expenses, equipment and grants. Total expenditures in the program were unaffected. The following table reflects the adjustments for each fiscal year.

	<b>FY 2008 General Operations</b>	<b>FY 2009 Highways &amp; Engineering</b>
Personal Services	(\$20,876,950)	(\$47,502,769)
Operating Expense	(\$214,903,284)	(\$272,881,260)
Equipment		(578,965)
Capital Outlay	\$235,780,234	\$321,052,758
Grants		(\$89,764)

## **7. American Recovery and Reinvestment Act**

In fiscal year 2009, the American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery. The department was awarded approximately \$227.3 million from the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA). Of this amount, \$226.6 million was appropriated in House Bill 645 of the 2009 Legislative Session and \$677,000 was awarded through other competitive grants for on-the-job training grants to the Salish Kootenai College and Fort Peck Community College. As of June 30, 2009, the department expended \$2.2 million of ARRA funds.

MONTANA DEPARTMENT  
OF TRANSPORTATION

DEPARTMENT RESPONSE





**Montana Department of Transportation**

2701 Prospect Avenue  
PO Box 201001  
Helena MT 59620-1001

**B-3**

Jim Lynch, Director  
Brian Schweitzer, Governor

October 5, 2009

Ms. Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
State Capitol Room 160  
Helena, MT 59620-175

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**OCT 06 2009**

**LEGISLATIVE AUDIT DIV.**

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the audit recommendations in the Financial Compliance Audit Report of the Montana Department of Transportation (MDT) for the two fiscal years ended June 30, 2009. Our responses to the recommendations included in the report are as follows:

**Recommendation #1**

We recommend the department record fiscal year-end transactions in the proper fiscal year.

**Response**

Concur. MDT provided additional training to staff approving transactions recorded on the state's accounting records during the June 2009 financial contact meeting. Additionally, numerous reminders were sent to department staff during June and the fiscal year-end period to ensure valid obligations were recorded in the proper fiscal year. Training and reminders will be a routine part of MDT's fiscal year-end closing procedures.

**Recommendation #2**

We recommend the department follow procedures to ensure compliance with its relocation expense reimbursement policy.

**Response**

Concur. During fiscal year 2009, MDT centralized the reimbursement of relocation expenses by requiring all relocation costs go through Headquarters for approval and payment. The centralization was done to establish consistency when paying for relocation expenses and to ensure a signed agreement is in place prior to paying any relocation costs. The centralization included system modifications that allow only the Headquarters' Payroll staff to code relocation expenses to its accounting system.

**Recommendation #3**

We recommend the department modify its internal controls related to fuel purchasing cards to detect, prevent or deter fraud.

**Response**

Concur. MDT worked with the fuel card vendor to modify an existing report that will allow MDT to monitor fuel card activity by employee. This report will be reviewed by appropriate MDT staff on a bi-monthly basis for unusual activity such as after hour and weekend use of the fuel card and high dollar purchases. MDT requires employees to enter the actual odometer reading each time a vehicle is fueled. As part of the above review, MDT staff will monitor the actual odometer and analyze the gallons used for reasonableness. Additionally, in August 2009, MDT identified fuel pin numbers that were no longer in use and those that were not being utilized by current employees. These pin numbers were terminated to reduce the number of MDT employees using the fuel cards. This analysis will be completed periodically during each fiscal year. The Headquarters' Maintenance Division and MDT Internal Audit Unit will be monitoring compliance with the new procedures.

**Recommendation #4**

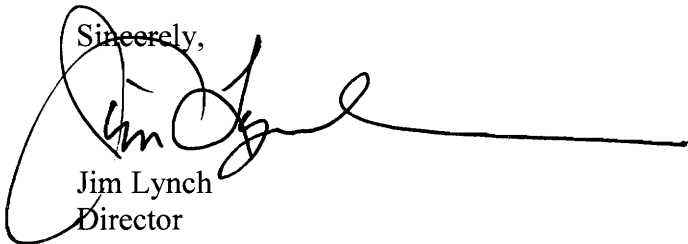
We recommend the department have the Transportation Commission appoint the Scenic-Historic Byways Advisory Council in accordance with state law.

**Response**

Concur. The Transportation Commission designated a Scenic-Historic Byways Advisory Council at the August 6, 2009 Transportation Commission meeting.

We appreciated your staff's hard work and professionalism during the audit. MDT is committed to complying with state and federal laws, implementing and monitoring effective internal controls, and ensuring complete and accurate financial information is recorded on the state's accounting records. MDT views the audit process as an opportunity for improvement and appreciates your input. Enclosed is a copy of our Corrective Action Plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Lynch", with a long horizontal flourish extending to the right.

Jim Lynch  
Director

Enclosure